



It's in your hands ~ "Build a Stronger Community - Shop Locally"

**AGENDA  
WORK SESSION  
MAYOR and COMMON COUNCIL  
of the TOWN OF CAMP VERDE  
COUNCIL CHAMBERS - 473 S. Main Street, #106  
WEDNESDAY, FEBRUARY 23, 2011  
6:00 p.m.**

1. **Call to Order**
2. **Roll Call**
3. **Pledge of Allegiance**
4. **Discussion, consideration, and possible direction to staff, in preparation for fiscal year budget 2011/2012, relative to the Town of Camp Verde's cash reserve, to include, but not limited to, discussion regarding their status and town policy, along with a presentation by the Town Manager.**
5. **Adjournment**

Posted by:

*Virginia Jones*

Date/Time:

*2-17-2011*

*12:30 p.m.*

*Note: Pursuant to A.R.S. §38-431.03.A.3, the Council may vote to go into Executive Session for purposes of consultation for legal advice with the Town Attorney on any matter listed on the Agenda, or discussion of records exempt by law from public inspection associated with an agenda item.*

The Town of Camp Verde Council Chambers is accessible to the handicapped. Those with special accessibility or accommodation needs, such as large typeface print, may request these at the Office of the Town Clerk.

2. The Town will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and Town priorities, and whose operating and maintenance costs have been included in the budget.
3. The Town will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.
4. The Parks Fund and other special development impact funds may only be used to fund facilities included in the Town's master plans.

#### **Section 3-4-3.6 Short-Term Debt Policies**

1. The Town may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.
2. The Town may issue interfund loans, rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations.

#### **Section 3-4-3.7 Long-Term Debt Policies**

1. The Town will confine long-term borrowing to capital improvements that cannot be funded from current revenues.
2. Where possible, the Town will use special assessment revenue or other self-supporting bonds instead of general obligation bonds.
3. The Town will establish and maintain a Debt Policy.

#### **Section 3-4-3.8 Reserve Policies**

1. The Town will maintain emergency reserves (rainy day fund) in the following amounts:
  - General Fund - Four (4) months of maintenance and operations expenditures.
  - HURF Fund - Three (3) months of expenditures.

The primary purpose of these reserves is to protect the Town's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget.

2. The Town will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be maintained as a level at least equal to projected costs for employees who are eligible for retirement.
3. Self-insurance reserves will be maintained at a level, which, together with purchased insurance policies, adequately protects the Town. The Town will maintain a reserve of three times its self-insurance retention for those claims covered by the insurance pool (of which the Town is a member). The Town will perform an analysis of past claims not covered by the insurance pool and reserve an appropriate amount to pay for uncovered claims.
4. The Town will establish a Capital Equipment Replacement Reserve and a Facilities/Maintenance Capital Asset Reserve for the accumulation of funds for the replacement of worn and obsolete equipment, other than vehicles, and for costs associated with the maintenance of all Town facilities. These reserves will be maintained at a level at least equal to the projected five-year capital asset replacement and maintenance costs.
5. The Town will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock as they become unserviceable, obsolete, or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.

#### **Section 3-4-3.9 Investment Policies**

1. The Finance Director will submit an Investment Policy to the Town Council bi-annually on odd numbered years for review and adoption.
2. The Finance Director will invest the Town's monies in accordance with applicable laws, adopted investment policies, and direct the investment of bond or note monies on deposit with a trustee or fiscal agent in accordance with the applicable indentures or issuance document.

# Budget Process

The preparation of the budget requires departments to evaluate goals and objectives as well as departmental processes in order to accomplish these goals and objectives. Preparation of the budget begins in February and continues through adoption in July. Policies are in place to insure the proper preparation of the budget including public participation. The Town firmly believes that the budget preparation is a participatory project as it affects all those within the Town: citizens, employees, and visitors.

## Operating Budget Policies

1. The Town will adopt a balanced budget by June 30 of each year.
2. An annual base operating budget will be developed by conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.
3. Current revenues will be sufficient to support current operating expenditures and a budgeted positive operating position will be maintained.
4. Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the Town's capital assets.
5. The purchase of new or replacement capital equipment with a value of \$5,000 or more and with a minimum useful life of two years will require budget approval.
6. The Town will annually project its equipment replacement and maintenance needs for the next five years. A maintenance and replacement schedule will be developed and followed.
7. The Town will annually review the General Fund operating position to determine if funds are available to operate and maintain future capital facilities. If funding is not available for operations and maintenance costs, the Town will delay construction of the new facilities.

## Use of Contingency Funds

The Town budgets for Contingency Funds for the following purposes:

1. To offset unexpected revenue shortfalls.
2. When unanticipated and/or inadequately budgeted expenditures increase so that service measures can be maintained.
3. When unanticipated and/or inadequately budgeted capital projects are approved by the Town Council.

All requests to use Contingency Funds will require justification of the financial need and approval from Council.

## Fund Balance

Arizona law (Title 42 Arizona Revised Statutes) requires the Town Council to annually adopt a balanced budget. The Town of Camp Verde will develop a balanced budget where projected revenues meet or exceed projected expenditures. In the event that projected revenues are not adequate to sustain the service delivery system desired by the Town's citizens, a draw on fund balance may be authorized by the Town Council. As a sound management practice, the Town has established a goal of not budgeting fund balance to support long-term, ongoing expenses.

## Budget Process

1. The budget process begins in February with an off-site retreat of Council Members and Department Heads to discuss the departments' priorities and obtain guidance from Council on strategic objectives and special funding requests.
2. In March, the Finance Department compiles information, makes projections, and completes non-departmental revenue estimates. Based on the revenue estimates projected, the Finance Department determines the subsidy allocation to be provided to each department through a General Fund Subsidy Allocation. These allocations are distributions of the monies provided from general purpose revenues (non-departmentally generated revenues) to help fund the department's operations. A meeting is held with the Department Heads to convey the budget direction, discuss the budget process, and explain the General Fund Subsidy allocation amounts allocated to each department.
3. Department Heads develop the budgets for their departments as they best understand the operational needs of their departments. The Finance Department completes the salary related projections for the Manager's Recommendation column and will provide estimates for Department Heads relating to current and requested staffing levels.
4. In April, Department Heads submit their completed budget requests to the Finance Department for compilation of the budget work papers. Individual meetings are held with each of the Department Heads to discuss their budget requests and to assure that the Departments' narratives are complete.
5. In May, the draft budget is distributed to Council Members and Department Heads. Budget Work Sessions are held to present each budgetary unit to Council, answer questions that may arise, make adjustments as directed, and obtain Council's preliminary approval of the requests. The Finance Department makes final adjustments to the budget and verifies that all information is properly included in the budget document.
6. In June, the Tentative Budget is approved by Council and the budget is advertised in the local newspapers for two consecutive weeks.

7. In July, Public Hearings on the Tentative Budget are held. If no changes have been directed, the Final Budget is adopted and implemented.

#### **Budget Amendments**

Once the tentative budget is adopted, the expenditure limitation amount is set for the fiscal year. The Town Council may not approve additional appropriations above that amount. Throughout the fiscal year, amendments may be made to the adopted budget. All budget amendments must be approved by the Town Council. Budget amendments include, but are not limited to, transfers of appropriations between departments, transfers of appropriations from the Contingency to departments and/or funds, and transfers of appropriations between funds.

#### **Budget Monitoring**

1. The Finance Department, along with each Department Head, monitors the budget continuously throughout the fiscal year. The Town focuses on the object level (total salary expenditures, total operational expenditures, etc) of tracking rather than focusing on the sub-object level (each specific line item). This means that instead of tracking each line item to ensure that it remains within the budget appropriation, the focus is on whether the Department as a whole operates within its total budget appropriation.
2. Revenue projections are monitored monthly and statistically projected throughout the remainder of the fiscal year to determine the need to decrease expenditure appropriations in order to maintain a balanced budget.
3. Financial reports are given to the Town Council and Department Heads monthly detailing the status of each department and the Town as a whole. Along with these reports, the Finance Department also presents a report to Council detailing the revenue projections through the end of the fiscal year and makes recommendations as needed to decrease appropriated expenditures, as a result of any shortfall in our revenue base which may materialize.

# Fund Balance Descriptions and Requirements

The Governmental Accounting Standards Board issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions in March 2009 with implementation required for periods beginning after June 15, 2010. "Statement No. 54 will improve the reporting of fund balance by creating fund balance classifications based on the extent to which governments are bound by constraints on resources reported in the funds. This approach is intended to provide users more consistent and understandable information about a fund's net resources."<sup>1</sup> Statement No. 54 breaks fund balance reserves into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. Requirements for the categories is as follows:

Nonspendable - Items that cannot be spent due to form such as inventories, prepaid amounts, long-term loan and notes receivables, property held for resale, and amounts that must be maintained intact legally or contractually.

Restricted - amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed - amounts constrained for a specific purpose by a government using its highest level of decision-making authority. It would require action by the same group to remove or change the constraints placed on the resources.

Assigned - for all funds other than the General Fund, any remaining positive amounts not classified as nonspendable, restricted, or committed. For the General Fund, amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts.

Unassigned - for the General Fund, amounts not classified as nonspendable, restricted, committed, or assigned. For all other funds, amount expended in excess of resources that are nonspendable, restricted, committed, or assigned.

To implement Statement No. 54, the Town of Camp Verde is developing a Fund Balance Policy that will detail the requirements for fund balance classification, the Town's policy regarding the order of spending of fund balance designations, and reiterate the requirements of Resolution 2001-471 which established minimum levels at which fund balance is to be maintained for the General Fund and HURF Fund.

Resolution 2001-471 states that the General Fund shall maintain a minimum balance of four (4) months of Maintenance and Operations (M&O) expenditures on an annualized basis for contingency purposes. Maintenance and Operations expenditures do not include salary related expenditures. Resolution 2001-471 also states that the HURF Fund shall maintain a minimum balance of three (3) months of HURF expenditures on an annualized basis. The HURF Fund requirements include salary related expenditures.

Using averaged figures from the first ten (10) months of the 2009-2010 Fiscal Year, the amounts required to be maintained in fund balance for contingency purposes should be as follows:

	Reso. 2001-471 Requirements	M&O Only	All Expenses
General Fund	\$ 521,078	\$ 521,078	\$ 1,783,204
HURF Fund	\$ 162,412	\$ 52,918	\$ 162,412

For the Fiscal Year 2010-2011, Council has approved a draw from the General Fund Fund Balance to help fund the service delivery desired by the Town's citizens. The total amount of the draw on General Fund Fund Balance is shown in the General Fund Revenues and Subsidies on page 5-3. \$533,739 will be used to fund General Fund operations. The remaining \$629,102 will be transferred to the Capital Improvement Projects Fund to allow for the completion of projects.

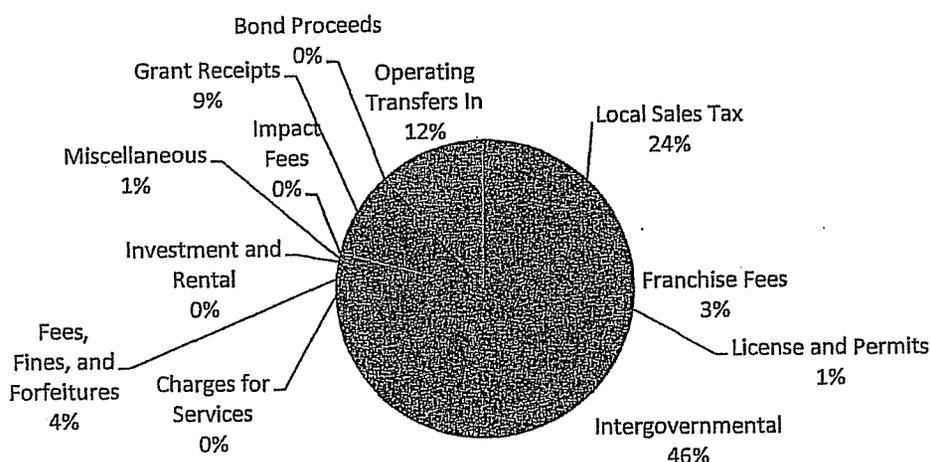
<sup>1</sup>Chase, Bruce W., CPA and John B. Montoro, CPA. Journal of Accountancy, Nov 2009. "Balancing Governmental Budgets Under GASB 54". Category definitions were also obtained from this article.

# Budget Summary

The Town continues a conservative approach to revenue projection. In the current economic climate, it is difficult to assess the performance of the revenue sources. During the 2009-2010 fiscal year, the Town of Camp Verde has seen long standing businesses close their doors, however, a slight increase in Retail Trade sales tax collections has occurred. A comparison of the total year-to-date Local Sales Tax (Town Sales Tax) collections from April 2009 and April 2010 show an overall increase of sales tax collections. An analysis of individual sales tax categories show that Accommodation taxes are down forty-seven percent (47%) while other categories such as Restaurant & Bar have held fairly steady. The experienced trends and fluctuations in the various categories combined are used to generate the revenue projection for the next fiscal year's budget.

The Town relies heavily on Intergovernmental Revenues to fund its service delivery system. Intergovernmental Revenues consist of State Shared Sales Tax monies, Urban Revenue Sharing (personal and corporate income tax), Vehicle License Tax, Highway User Revenue Funds, monies from the Yavapai County Library District, as well as local government agencies. The majority of these revenue sources will experience declines in FY 2010-2011, the biggest of which is Urban Revenue Sharing. The Town will experience a reduction of \$341,090 in Urban Revenue Sharing.

The following chart and table depict where the money comes from to pay for the amount appropriated. In addition to the revenue received, General Fund fund balance in the amount of \$1,168,977 will be utilized.

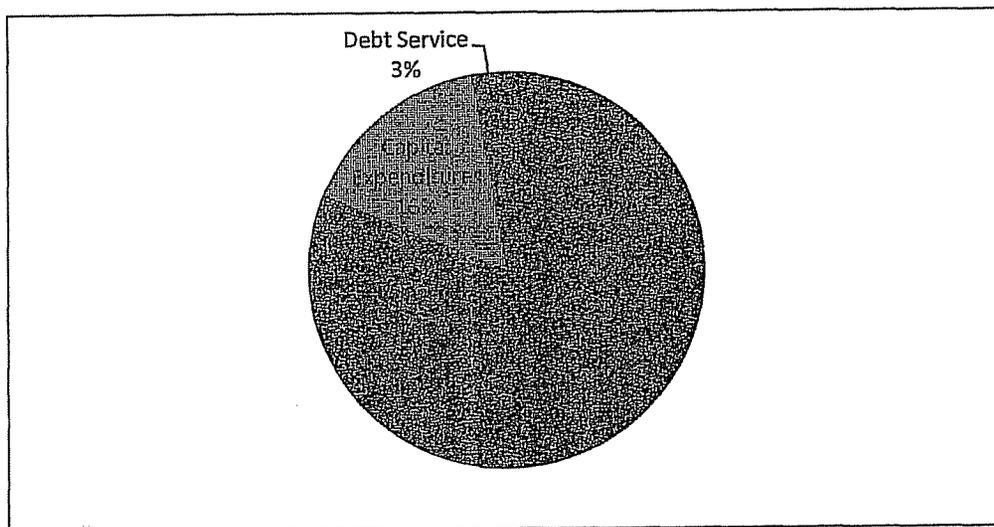


Revenues	FY07-08 Actual	FY08-09 Actual	FY09-10 Adj Budget	FY10-11 Adopted
Local Sales Tax	\$ 2,314,337	\$ 2,163,949	\$ 2,195,000	\$ 1,970,000
Franchise Fees	237,226	238,072	\$ 225,500	\$ 228,900
License and Permits	154,333	184,017	\$ 121,975	\$ 93,750
Intergovernmental	4,349,908	4,187,773	\$ 4,244,905	\$ 3,815,385
Charges for Services	2,764	5,286	\$ 3,593	\$ 3,876
Fees, Fines, and Forfeitures	473,006	296,496	\$ 362,736	\$ 308,341
Investment and Rental	264,324	58,049	\$ 46,880	\$ 11,517
Miscellaneous	152,472	196,204	\$ 75,655	\$ 63,323
Impact Fees	79,093	111,937	\$ 25,025	\$ 19,771
Grant Receipts	927,083	592,389	\$ 365,061	\$ 759,881
Bond Proceeds	-	-	\$ -	\$ -
Operating Transfers In	1,974,620	1,209,743	\$ 415,560	\$ 947,722
<b>Total Revenues</b>	<b>\$ 10,929,168</b>	<b>\$ 9,243,915</b>	<b>\$ 8,081,890</b>	<b>\$ 8,222,466</b>
Draws on Fund Balances (detailed on next page)	\$ 2,007,778	\$ 7,984	\$ 1,082,399	\$ 2,030,495
<b>Total Revenues and Draws on Fund Balances</b>	<b>\$ 12,936,946</b>	<b>\$ 9,251,898</b>	<b>\$ 9,164,289</b>	<b>\$ 10,252,961</b>

	FY07-08	FY08-09	FY09-10	FY10-11
Detail Of (Draws)/Contributions To Fund Balances:	Actual	Actual	Adj Budget	Adopted
General Fund	\$ 46,198	\$ 105,628	\$ (189,727)	\$ (1,168,977)
Capital Improvement Projects Fund	(507,160)	(622,877)	(487,548)	(607,055)
Parks Fund	(2,404,335)	417,144	(140,398)	(31,900)
Magistrate Special Revenue Fund	(3,248)	(37,554)	(2,673)	9,676
Non-Federal Grants Fund	988	-	(49,898)	(69,523)
Yavapai-Apache Gaming Compact Fund	18,548	3,900	(10,437)	(73,587)
Federal Grants Fund	-	-	62,485	-
CDBG Fund	-	-	(10,885)	10,814
9-1-1 Fund	600	900	500	(2,184)
Library Building Fund	28,116	13,044	13,300	27,058
Impact Fee Fund	79,528	113,009	25,905	20,476
Housing Grant Fund	12,551	(149,336)	19,096	(50,899)
Donations Fund	9,963	6,732	(17,518)	(11,713)
Highway Users Revenue (HURF) Fund	586,220	142,526	(334,688)	35,445
Debt Service Fund	124,253	(1,100)	40,086	(118,126)
<b>Total (Draws)/Contributions To Fund Balances</b>	<b>\$ (2,007,778)</b>	<b>\$ (7,984)</b>	<b>\$ (1,082,399)</b>	<b>\$ (2,030,495)</b>

The annual budget for the Town is divided into four major components which include all appropriations for the Town. The Salary Expenditures consist of salaries and fringe benefits for all Town employees. The total amount budgeted for Salary Expenditures is \$4,348,765. The Operating Expenditures finance the day-to-day provisions of Town services, grant related activities, and contingency. The total amount budgeted for Operating Expenditures is \$3,984,849. The Capital Expenditures consists of items such as computer equipment, capital leases, as well as construction or improvement of Town facilities and infrastructure, and the purchase of various types of machinery and equipment. Small Capital Expenditure items are budgeted within the various Town accounts. Large capital items are budgeted within the Capital Improvement Projects Fund. The total amount budgeted for Capital Expenditures is \$1,626,726. The Debt Service budget is used to repay money borrowed by the Town, primarily for capital improvements. The amount budgeted for debt service payments in the FY2010-2011 is \$292,621. The total budget, including all four components, is \$10,252,961.

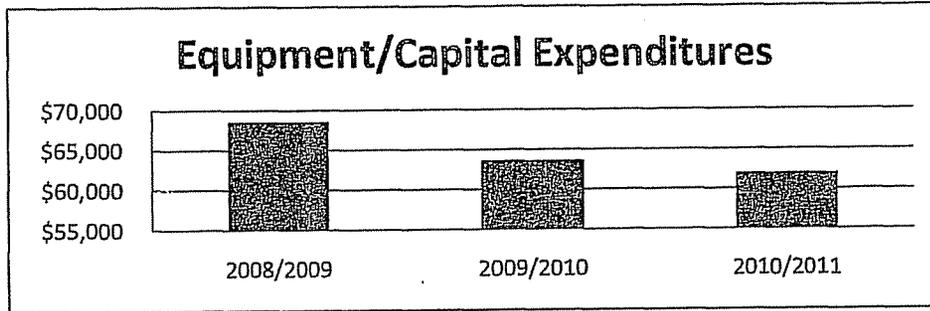
The following chart and table depict the major categories where the monies are appropriated.



	FY07-08	FY08-09	FY09-10	FY10-11
Expenditures	Actual	Actual	Adj Budget	Adopted
Salary Expenditures	\$ 4,745,744	\$ 4,522,543	\$ 4,518,863	\$ 4,348,765
Operating Expenditures	3,446,582	3,100,267	3,077,612	3,984,849
Capital Expenditures	4,507,816	1,321,076	1,296,477	1,626,726
Debt Service	236,806	308,012	271,337	292,621
<b>Total Expenditures</b>	<b>\$ 12,936,949</b>	<b>\$ 9,251,898</b>	<b>\$ 9,164,289</b>	<b>\$ 10,252,961</b>

**Equipment/Capital Expenditures**

Equipment/Capital Expenditures represents approximately 1% of the General Fund budget. This category is comprised of office equipment and small equipment items such as copy machine lease payments, printers, light Parks & Recreation and Maintenance equipment, etc. Items that exceed the \$5,000 threshold are tracked in the Capital Improvement Funds budgetary units.



**Operating Transfers and Contingency**

Operating Transfers and Contingency represent approximately 15% of the General Fund budget. Operating Transfers are monies that are transferred from one governmental fund to another. The Operating Transfers that affect the General Fund in the FY2010-2011 are as follows:

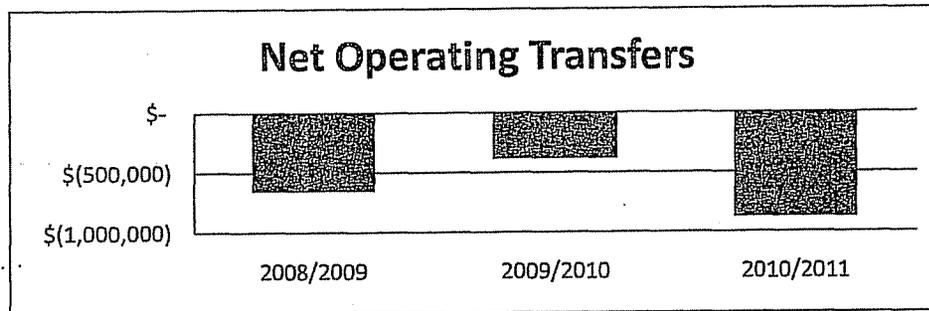
Operating Transfers Out To Other Funds

* To the Capital Improvement Projects (CIP) Fund to transfer 2/3 of the Construction Sales Tax revenues	\$ 80,000
* To the Capital Improvement Projects (CIP) Fund to transfer available fund balance to fund CIP Projects	629,102
* To the Debt Service Fund to transfer 1/3 of the Construction Sales Tax revenues	40,000
* To the Debt Service Fund to transfer additional funds needed for GADA Loan payments	128,695
* To the Library Building Fund to transfer a contribution	100
<b>Total Operating Transfers Out To Other Funds</b>	<u><u>\$ 877,897</u></u>

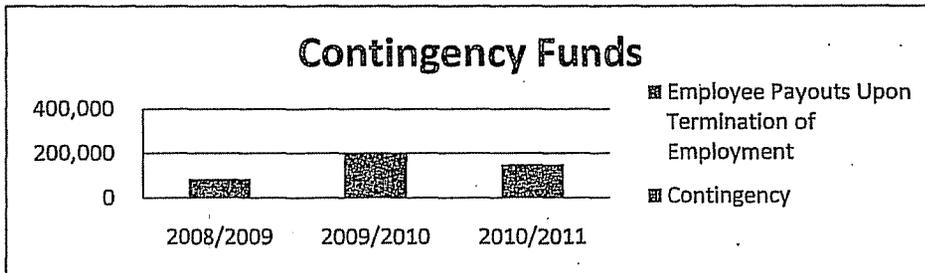
Operating Transfers In From Other Funds

* From the Yavapai-Apache Gaming Compact Fund for Children's Recreational Programs	\$ 16,899
* From the Yavapai-Apache Gaming Compact Fund for Camp Verde Heritage Pool	33,268
<b>Total Operating Transfers In From Other Funds</b>	<u><u>\$ 50,167</u></u>

The chart below shows the net operating transfers for the General Fund. These amounts are shown as negatives due to more monies being transferred out of the General Fund than are transferred in to the General Fund.



Contingency Funds are monies appropriated for unanticipated expenditures that may arise during the fiscal year. Council approval must be obtained prior to the expenditure of these funds. In the FY2010-2011, Council has appropriated \$100,000 for Contingency purposes and an additional \$50,000 for employee payouts upon termination of employment. In the past few fiscal years, when an employee terminated employment with the Town, the payout of accrued leave times was charged against the department's budget. This forced the department to hold the position vacant for a certain time period until those amounts were absorbed by the budget. Allocating monies for employee payouts upon termination of employment will allow for departments to fill needed vacancies sooner thus allowing a more consistent level of service to citizens.

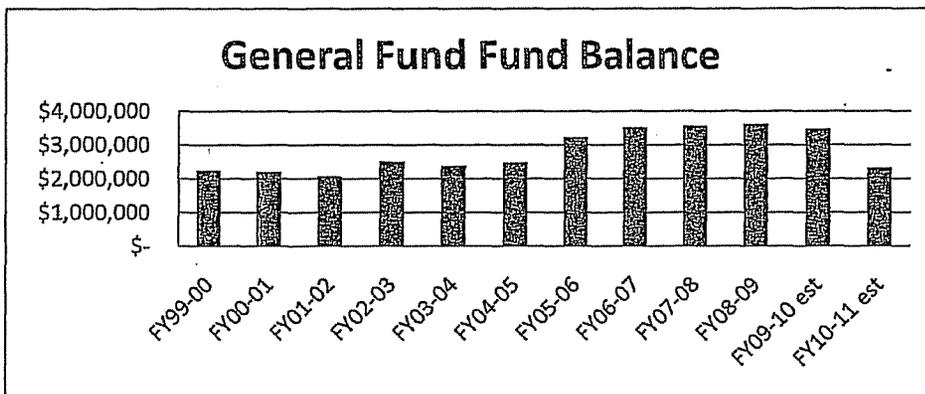


**General Fund Unreserved Fund Balance**

General Fund Unreserved Fund Balance is projected to decrease in FY2010-2011 due to anticipated decreased revenue collections as well as transferring Unreserved Fund Balance to the Capital Improvement Projects (CIP) Fund to allow for various projects to be completed.

The beginning General Fund Unreserved Fund Balance for FY2010-2011 is estimated at \$3,482,021. The budgeted draw on General Fund Unreserved Fund Balance is \$1,162,841 resulting in an estimated ending General Fund Unreserved Fund Balance at June 30, 2011 of \$2,319,180.

Resolution 2001-471 dictates that the General Fund must maintain a minimum of four (4) months of Maintenance and Operations expenditures in the fund balance. Maintenance and Operations expenditures do not include salary related expenditures. Using averaged figures from the first ten (10) months of the 2009-2010 Fiscal Year, the amounts required to be maintained in fund balance should be \$521,078. If salary related expenditures were included in the requirement, a total of \$1,783,204 would be required to be maintained in the General Fund fund balance.



**Capital Improvement Funds**

The Capital Improvement Funds are used to account for major capital projects. The Capital Improvement Funds currently consists of the Capital Improvement Projects (CIP) Fund and the Parks Fund.

**Capital Improvement Projects (CIP) Fund**

The Capital Improvement Projects (CIP) Fund is used to account for revenues from 2/3 of the Construction Sales Tax collections and major capital outlay expenditures associated with growth-related capital projects or infrastructure improvements. In FY2010-2011, \$80,000 (2/3 of the projected Construction Sales Tax collections) is expected to be transferred from the General Fund along with \$629,102 in General Fund fund balance to fund the approved CIP requested projects.